

MINUTES

**California Industrial Development
Financing Advisory Commission
915 Capitol Mall, Room 587
Sacramento, California
September 24, 2008**

1. CALL TO ORDER & ROLL CALL

Bettina Redway, Acting Chair, called the California Industrial Development Financing Advisory Commission (CIDFAC) meeting to order at 10:37 a.m.

Members Present: Bettina Redway for Chairman Bill Lockyer, State Treasurer
Tom Sheehy for Michael C. Genest, Director, Department of Finance
Cindy Aronberg for John Chiang, State Controller
Preston DuFauchard, California Corporations Commissioner,
Department of Corporations
Stanton Hazelroth for Dale Bonner, Agency Secretary, Business,
Transportation and Housing Agency

Staff Present: Tom Dresslar, Executive Director
Eileen Marxen, Deputy Executive Director

Quorum: The Acting Chair declared a quorum

2. APPROVAL OF AUGUST 27, 2008 MEETING MINUTES

Ms. Redway asked if there were any comments from the Board members or the public on the August 27, 2008 meeting minutes. There were none.

Tom Sheehy moved approval of the August 27, 2008 meeting minutes. Upon a second of the motion, the item passed unanimously.

3. EXECUTIVE DIRECTOR'S REPORT

Tom Dresslar began his Executive Director's report by recalling the February 2007 meeting in which the Commission authorized the Executive Director to enter into contracts and interagency agreements up to \$100,000. He said that the Commission directed the Executive Director to verbally report on any contracts or interagency agreements of amounts between \$10,000 and \$100,000. Mr. Dresslar reported that CIDFAC has entered into an interagency agreement with State Treasurer's Office (STO) to provide CIDFAC administrative services, including budgeting, accounting, personnel, information technology, and business services, in the amount of \$18,436. He stated that this amount is roughly \$3,000 more than provided under the fiscal year 2007/2008 interagency agreement with STO.

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In addition, Mr. Dresslar reported that, assuming the Commission approves all bond transaction items before them, CIDFAC will have about \$13.6 million in IDB allocation remaining after today's meeting. He added that, based on information solicited from IDB issuers and practitioners, IDB demand for the remainder of 2008 is expected to exceed that amount and that CIDFAC staff is hopeful that California Debt Limit Allocation Committee (CDLAC) will approve the additional \$11 million in IDB allocation requested by CDLAC staff to cover the additional demand.

Further, Mr. Dresslar mentioned that, to address the uncertain market conditions, CIDFAC is working with the State Treasurer's Office (STO) to craft an advisory targeted to the constituents of all the STO Boards, Commissions, and Authorities.

With respect to effects of the market conditions on IDBs, Ms. Marxen stated that there are bond market participants in attendance this morning who may be able to contribute some insight. She stated that, to date, she has not heard of IDBs being put back to remarketing agents, perhaps due to the fact IDBs tend to be smaller issues with a maximum bond amount of \$10 million. She stated that investors may be more likely to put back larger issues versus smaller issues. Ms. Marxen added that most of the letter of credit backed IDBs are variable rate bonds with weekly resets. She said that she has been told by market participants that the recent reset rates are higher than would otherwise have been expected and also that initial rates are higher than they have been over the last several years. She said that her understanding is that there may be options for borrowers with letter of credit enhanced, variable rate IDBs. For example, if there is a failed remarketing, the letter of credit bank may pay off the bonds and convert the borrower's debt into a private commercial loan.

Ms. Marxen reported that CIDFAC has allocated funds in which the IDBs have not been sold. She stated IDB allocation cannot carry forward to a subsequent calendar year, i.e., all allocation must be used in the calendar year in which it was approved by the Commission. She stated that she has asked our issuers to issue the 2008 IDBs no later than November 26, 2008 so that any unused allocation can be returned to CDLAC for reallocation as carry-forward to other private activity categories. Ms. Marxen said she has requested that IDB practitioners and issuers inform CIDFAC as soon as possible if they have transactions pending issuance that are not able to close by November 26th due to the uncertain market conditions. She stated that, in such a case, CIDFAC staff would like to work with CDLAC and the STO to minimize any penalties that borrowers may face.

Mr. DuFauchard stated that the disruption to the market can cause fluctuations, not only in the demand for the bonds but with respect to the ratings for the banks that back the line of credit. He asked if CIDFAC staff is aware of any rating changes for bonds that have been issued.

Ms. Marxen replied that she has not heard of any rating changes and that none of the IDB issuers have reported rating changes to the Commission. Ms. Marxen added that CIDFAC staff is aware of the fluctuating market conditions and that it has access to banks' current ratings through the STO Investment Division.

Ms. Redway asked Mr. Hazelroth if he had any comments on current market conditions. Mr. Hazelroth did not have any comments.

4. BUSINESS ITEMS

Staff introduced Paula Connors, California Enterprise Development Authority (CEDA).

A. REQUEST TO APPROVE INITIAL AND FINAL RESOLUTION FOR TAX-EXEMPT BONDS AND REQUEST FOR TAX-EXEMPT BOND ALLOCATION

- 1) **On behalf of Olive Lane Industrial Park, LLC (the Borrower) and Kieran Label Corp. (the User or KLC), the California Enterprise Development Authority (CEDA)** requested approval of Initial and Final Resolution No. 08-0015 for an amount equal to \$3,000,000 in tax-exempt bonds and Allocation Resolution No. 08-0015A for an amount equal to \$3,000,000 in tax-exempt IDB allocation. Bond proceeds will be used to refinance the cost of a new, 54,750 square foot building. Presented by Eileen Marxen.

Ms. Redway asked Ms. Connors if she wanted to add any comments.

Ms. Connors replied that the proprietors wanted to attend today's meeting, but they had a prior family obligation. The proprietor is available by telephone if needed, she said. This project is located in an Enterprise Zone in the Otay Mesa area of the City of San Diego.

Ms. Redway asked if there were any questions or comments from the board or the public. There were none.

Ms. Aronberg moved approval of the item. Upon a second, the item was unanimously approved.

B. REQUEST FOR TAX-EXEMPT BOND ALLOCATION

Staff introduced Tara Dunn, I-Bank; Andrew Alexander, Bank of America Securities; Marcus Shiveley, company representative.

- 1) **On behalf of Betts Spring Company, Inc., and/or an affiliate, the California Infrastructure and Economic Development Bank (I-Bank)** requested approval of the Initial and Final Resolution No. 08-0016 for an amount equal to \$10,000,000 in tax-exempt bonds and Allocation Resolution No. 08-0016A for an amount equal to \$10,000,000 in tax-exempt IDB allocation. Bond proceeds will be used for the construction of a new building and the acquisition and installation of new equipment for the manufacturing and finishing of leaf, coil, and wire springs by Betts Spring Company, Inc. Presented by Eileen Marxen.

Ms. Redway asked the finance team and the company representative if there were any comments they wanted to add. There were none.

Ms. Redway asked if there were any comments from the board or the public.

Mr. DuFauchard asked if, given that the bond issue will be sold in a public offering, the project has been represented to the rating agency.

Mr. Alexander replied that the rating agency has received the distribution list and document terms. He stated that the rating agency knows the transaction is coming up and has begun its review of the documents.

Ms. Redway stated that, on behalf of Treasurer Lockyer who lives in the City of Hayward, she is sorry to see the company leave neighboring San Leandro. However, she stated that the Treasurer is glad to see that the company is creating jobs in California.

Ms Redway asked if there were any comments from the board or the public. There were none.

Mr. DuFauchard noted for the record his abstention. Mr. DuFauchard stated that he worked for the legal department of Bank of America three years ago and that he represented Banc of America Securities in his capacity as a lawyer.

Mr. Sheehy moved approval of the item. Upon a second, the item passed with four Ayes and Mr. DuFauchard's abstention.

C. REQUEST FOR APPROVAL OF REFUNDING OF \$5,275,000 AGGREGATE PRINCIPAL AMOUNT OF CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK TAX-EXEMPT AND TAXABLE VARIABLE RATE DEMAND INDUSTRIAL DEVELOPMENT REVENUE BONDS SERIES 2006A AND B

Staff introduced Paula Connors, CEDA, and Dan Bronfman, Growth Capital.

- 1) On behalf of the 2400 Company, LLC, Pocino Foods Company and/or an established or to be established related or affiliated entity and the User, Pocino Foods Company and/or an established or to be established related or affiliated entity, the California Enterprise Development Authority (CEDA)** requested approval of the refunding of \$4,000,000 in tax-exempt and \$1,275,000 balance in taxable IDBs that were originally issued on June 1, 2006 by the California Infrastructure and Economic Development Bank (I-Bank). At its August 27, 2008 meeting, the Commission approved the Initial and Final Resolution No. 08-0013 for \$3,665,000 in tax-exempt bonds and \$60,000 in taxable bonds and Allocation Resolution No. 08-0013A for \$3,650,000 in tax-exempt bonds for the Issuer for the Pocino Foods Company Project.

The 2006 bonds combined with the new bonds will result in a transaction totaling \$9,000,000, which, will be enhanced in its entirety by one direct-pay letter of credit issued by City National Bank. The Project remains the same as it was presented at the August 27, 2008 meeting. Presented by Eileen Marxen.

Ms. Redway asked if there were any questions or comments from the board or the public.

Mr. DuFauchard moved approval of the item. Upon a second, the motion passed unanimously.

D. CIDFAC STRATEGIC PLAN

- 1) CIDFAC staff requested the Commission’s approval of the Revised September 2008 Strategic Plan.** CIDFAC staff presented a draft Strategic Plan to the Commission at its June 23, 2008 meeting. Subsequently, staff posted the draft Strategic Plan on its website and emailed an electronic notice of such posting to all parties on its mailing list in an effort to solicit written comments from interested parties. The deadline for the receipt of written comments was close-of-business July 31, 2008. CIDFAC staff believes that it has fully responded to written comments received on the draft Strategic Plan, including those related to the expansion of CIDFAC’s authority to issue IDB’s, and that neither the comments nor the responses require substantive revisions to the draft strategic plan. CIDFAC staff believes the plan will further the Commission’s mission by making CIDFAC a more important contributor to California’s economic development program. Staff remains committed to accomplishing the plan’s near-term and long-term objectives to benefit California’s economy, businesses and environment. However, Staff recognizes there are legitimate concerns regarding CIDFAC’s strategic plan proposals, particularly those relating to the expansion of its authority to issue IDBs, the establishment of a level playing field among issuers, and the IDB application processes. Staff is prepared at the direction of the Commission to amend its current recommendation to clarify that, under the proposal to expand, CIDFAC will only issue IDBs upon receipt of a written request of a local IDB issuer when the project lies within a local issuer’s jurisdiction. Presented by Eileen Marxen.

Mr. Dresslar stated that California has adopted landmark laws and regulations to fight climate change. He said those laws cannot be implemented without contributions from the manufacturing sector. Mr. Dresslar stated California is poised to be a leader in the emerging knowledge-based manufacturing sector. To help the state meet its climate change goals, and to exploit the coming opportunities in knowledge-based industries, CIDFAC staff believes that the state’s IDB program needs to change and to move forward, Mr. Dresslar said. He added the he goal of the strategic plan is to help ensure that the IDB program is a vital part of California economic future. The intent of the proposed strategic plan, Mr. Dresslar stressed, is not to make CIDFAC “Big Brother,” or to encroach on current issuers’ turf. Staff will fully respect the jurisdiction of local issuers, he said, and the Plan envisions CIDFAC as a partner in the IDB community. Mr. Dresslar noted questions have been raised about the need for CIDFAC to expand its issuance authority. But he said the plan is looking at the IDB program not as it exists today but as we want it to be. Staff believes that an expanded issuance authority can give CIDFAC a tool that it can use, when appropriate, to strengthen the future IDB program. The draft plan has stirred a lot of debate and commentary, which Mr. Dresslar called “a good thing.” Mr. Dresslar closed by saying staff fully recognizes that many of the concerns expressed are serious and legitimate, and that staff is prepared to offer suggested revisions to the plan to address those concerns.

Ms. Redway asked the Board if there were any questions or comments.

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Mr. Hazelroth stated for the record the Business and Transportation Agency wants to commend the CIDFAC staff on the hard work they have done on the draft Strategic Plan. However, he said, the Agency has concluded that the current draft of the Plan creating CIDFAC as an IDB issuer is duplicative of what the state already offers through the I-Bank. In order for the agency to be comfortable approving the proposed Strategic Plan at this time, all references to expanding CIDFAC's role as an issuer must be deleted, he said. Mr. Hazelroth said he was prepared to move to amend the plan by striking all references to expanding CIDFAC's role as an issuer and approve the Plan with such amendments. He stated that the Agency's legal staff has prepared a revised draft of the Plan with such amendments for the Commission.

Ms. Redway asked if his statement was a motion.

Mr. Hazelroth confirmed that his statement was a motion.

Mr. Sheehy requested that the board hear public comment before acting on Mr. Hazelroth's motion.

Ms. Redway tabled the motion to hear public comment. There were no comments.

Mr. Sheehy seconded the motion and asked Ms. Redway if the board will have the opportunity to have additional discussion after the public comment. Mr. Sheehy stated he would like to hear public discussion and then share a couple of thoughts he had with the board.

Ms. Redway asked Ms. Marxen if she wished to reply to Mr. Hazelroth's proposed amendments for the Strategic Plan. That is a new proposal that board has not heard until now. She stated that public comment can be requested after Ms. Marxen's reply to the motion.

Ms. Marxen stated that she has a suggested amendment to the staff's recommendation on this item that may impact the discussion. She stated that, with direction from the Board, CIDFAC staff will amend the revise staff's recommendation on the Strategic Plan to make it clear that CIDFAC's proposed legislation to expand its issuance authority will state that the intent of the proposed IDB issuance program is to focus on manufacturers that produce certified green products and/or incorporate certifiably green standards and green processes in their plants, and on knowledge-based companies which produce tangible and intangible products.

Ms. Redway asked for confirmation that, under the amendments, the board would require a letter from the local jurisdiction requesting that CIDFAC act as issuer of IDBs for businesses within its boundaries, and that the focus would then be on green manufacturing and knowledge-based production.

Ms. Marxen replied that CIDFAC would require the letter from the local IDA issuer for all IDB projects within the issuer's jurisdiction under the proposed Strategic Plan. Staff's proposed amendment to its recommendation on the plan would refer to the focus on green manufacturers and knowledge-based producers.

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Ms. Redway consulted with counsel about procedures for taking public comment when there is a motion and a second, and then a substitute motion.

Mr. Robert Hedrick, STO counsel, asked Ms. Redway if a substitute motion was stated.

Ms. Aronberg stated that she would like to propose a substitute motion to approve staffs amended recommendation.

Mr. Sheehy commented that he was hoping to get public comment before proceeding with the vote on the motions.

Ms. Redway put Ms. Aronberg's substitute motion on hold and requested public comment followed by additional board discussion.

Ms. Redway asked if there were any public comment on the Strategic Plan or any of the proposed amendments to the Strategic Plan. There were no public comments.

Ms. Redway added that CIDFAC staff has provided a thorough list of all written comments received on the Plan, and said that staff has acknowledged and addressed concerns raised in those comments.

Ms. Aronberg made a substitute motion to amend staff's recommendation on the Strategic Plan as stated by Ms. Marxen and to approve staff's recommendation as amended.

Ms. Redway seconded the motion.

Mr. Sheehy requested clarification of Ms. Marxen's proposed amendment to staff's recommendation.

Ms. Marxen stated that, with the direction of the board, staff will amend not only the Strategic Plan but also staff's recommendation on the Plan. Ms. Marxen stated that these amendments would mandate that CIDFAC only issue IDB's upon receipt of a written request from the local jurisdiction within which the project lies. Additionally, the amendments would make clear that any CIDFAC proposed legislation to expand its issuance authority will state CIDFAC's intent to develop an IDB issuance program that focuses on: a) manufacturers that produce certified green products, b) manufacturers that incorporate certifiably green standards or processes in the their plants, and c) knowledge-based producers of tangible or intangible products.

Ms Redway asked for further comments.

Mr. Sheehy replied that the Department of Finance (DOF) sees no compelling reason to expand CIDFAC's issuance of IDB's. Mr. Sheehy stated he is concerned about expanding staff at the state level, particularly when resources are tight. Mr. Sheehy called attention to staff's assertion that expanding CIDFAC's issuance authority would not have a fiscal impact because CIDFAC's is supported by fee revenues, not

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the State's general fund. He stated that the funds do come from the proceeds of bonds, which would be issued on a tax-exempt basis and, therefore, have an impact on the general fund. Due to possible duplication of staff at the state level, and because the DOF does not see any compelling reason to expand CIDFAC's issuing authority at this time, Mr. Sheehy stated that the DOF will not be able to support the substitute motion.

Ms. Redway asked if there were any further comments from the board.

Mr. DuFauchard replied that the substitute motion really just puts a little bit of gloss on the current proposed Plan, and a little bit of limitation, but does not have the effect of the first motion by Mr. Hazelroth. Mr. DuFauchard stated he does not believe that the substitute motion really represents a substantial difference from staff's proposed Strategic Plan.

Ms. Redway stated that it clarifies that CIDFAC would not issue unless there is a letter requesting such issuance from the local jurisdiction, which is a specific limitation.

Ms. DuFauchard commented that it really reflects the proposed Strategic Plan with the exception of adding a focus on the green technology.

Ms. Redway replied that she believes staff's proposed amendment reflects a significant difference from the original Strategic Plan.

Counsel advised Ms. Redway that, if the substitute motion does not carry, then the board can act on the original motion.

Ms. Redway asked if there were further comments from the board or from the public on the substitute motion. There were none, so she asked for a roll call.

The substitute motion failed with the following votes: Mr. Sheehy, No; Ms. Aronberg, Aye; Mr. DuFauchard, No; Mr. Hazelroth, No, Ms. Redway, Aye. Ms. Redway stated that there was an original motion with a second. Ms. Redway asked if there were any comments from the board or the public on the original motion. There were none.

The motion passed with the following votes: Mr. Sheehy, Yes; Ms. Aronberg, No; Ms. DuFauchard, Aye; Mr. Hazelroth, Aye; Ms. Redway, No.

Ms. Redway asked if staff had enough direction.

Ms. Marxen replied that she understood the motion was to approve the Plan with amendments necessary to strike any reference to the expansion of CIDFAC's authority to issue IDBs.

5. PUBLIC COMMENT

Ms. Redway asked for public comments. There were none.

6. ADJOURNMENT

There being no further business, public comments, or concerns, the meeting was adjourned at 11:16 a.m.

Respectfully submitted,

Tom Dresslar
Deputy Executive Director